



The Insider

www.senate.mi.gov/switalski

Inside State Politics with State Senator Mickey Switalski Senate District 10

August 19, 2005

Welcome to the electronic version of *The Insider*. I would like to take the opportunity to thank you for your support and for giving me an opportunity to represent you in the Michigan Senate. It is my sincere hope that this bi-weekly e-newsletter will keep you informed of the happenings in Lansing while staying true to the traditional style of *The Insider*. If you would like to contact me, please feel free to e-mail me at senmswitalski@senate.michigan.gov or call me at my Roseville or Lansing office. You can also meet me in person during my constituent hours, coming to a library near you. Call my office and make an appointment or just walk in. See schedule for details.

Mickey's Letter Bag: Tobacco Securitization

Dear Senator Switalski,

Thanks for the invitation to comment on securitization of tobacco settlement funds.

I've worried a bit around what it is that makes Michigan an unattractive place to do business, as evidenced by our unemployment rate vis a vis national unemployment. Taxes are one issue. In much the same way that Detroit's income tax (Port Huron's, and other cities with an income tax) has driven residents and businesses to non-taxing jurisdictions, so too has Michigan's tax structure driven out residents and businesses. But to securitize tobacco money against (clearly temporary) business tax cuts would be short-sighted and ultimately ineffective. As would directing securitized funds to Michigan Merit Award scholarships, a laudable but rather narrow program.

Instead, can we look abroad, say to Ireland, for a model on how to turn around an economy? Ireland delayed making education its over-riding, priority one goal until it was almost too late, finally acting only because there were no more options. Yet in one generation, Ireland's commitment has earned the sobriquet "Celtic Tiger," and has delivered itself from poverty and desperation. And, trust me on this, Ireland's economy is not paying minimum wages!

Can you imagine the "Michigan Miracle?" or "The Michigan Tiger?"

So, I suggest that Michigan consider securitizing tobacco funds and investing (that is to say, INVESTING) in education. Sort of a "Let the word go forth from this time and place that Michigan will educate its citizens" (not to include the citizens of any neighbor state) program. (And certainly not a program which continues to allow no-bid contracts to education workers health care providers!)

I know there are no votes to be had from a program that takes a generation to produce results. Perhaps that is the ONLY redeeming consequence of term limits. That is to say, it allows sitting legislators to do the "right thing" without fear of political retribution.

Hopefully, I can count on you to at least introduce such an idea into the debate...?

Sincerely,

Mike Gavin
Clinton Township

Thanks for a thoughtful response. I've been to Ireland and seen the great progress they've made. I have great reservations about securitization on simple financial and budget grounds.

Mickey

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Dear Senator:

If the current tobacco money is paid up front, it will be gone before it gets to the "intended" beneficiaries. Can't the legislature find anything better to do?

Sincerely,
Susan Westlake
Clinton Township

I agree, but it appears that this is one of the few proposals that can command a majority. I still think it is a bad idea.

Mickey

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Dear Senator Switalski:

Being a junior at Oakland University, I understand all too well the current fiscal troubles and difficult economic times the state has been enduring over the past few years as reflected in my ever skyrocketing tuition.

I can understand the difficulties the Legislature faces with adopting a budget when there isn't enough funds to cover the programs and priorities that the citizens of Michigan have enjoyed in the past. I believe something needs to be done to improve our economy. But I don't think this is the right approach.

After reading the last *Insider E-Newsletter*, I am concerned that the Michigan Legislature is considering using securitization of the tobacco settlement funds to get money up front. Why would we sell bonds to receive money up front when next year we will have the same budget shortfalls that we currently have? Wouldn't this just add to the revenue problems the state already has? Securitization is a band-aid that will only offer a temporary fix for a leaky pipe that will only worsen over time. Soon, instead of a leak you will have a burst pipe.

I don't like the idea of using gimmicks that will only worsen the problems that we have with the budget now and passing the buck along so that future generations can pay for the mistakes that the Legislature could make if they used tobacco securitization.

A better way to improve our state's economy is to invest in higher education so that citizens can have the advanced skills and knowledge needed to compete in today's ever changing and globalized world. By making it more affordable to educate our public, the jobs will come to Michigan.

And wasn't the original purpose of the tobacco settlement money supposed to be used to fund education and health care programs that address the harmful effects of smoking?

Sincerely,
Lisa Lozen
Roseville

Mickey's Blog: Pitfalls of Securitization

Desperate times call for desperate measures.

But desperate policies are usually unwise in the long run.

That's the way I feel about a proposal being bandied about in Lansing to securitize the tobacco settlement dollars.

When the states sued the tobacco companies and settled five years ago for annual payments in perpetuity, Michigan's annual sum came to about \$280 million per year. Advocates of securitization say we should sell bonds backed by the next 20 years of those tobacco payments, and take the money up front. Just like a lottery winner can take a lump sum now, or get payments for the next 30 years. That way, we could use the money for important investments and budget problems.

But there's a catch.

You only get 50 cents on the dollar when you securitize. Some states who have done this only got 40 cents. It all depends on what the bond market is doing. Furthermore, if we use the money to plug budget holes, what do we do when we've spent the up front money and don't have the annual revenue coming in?

For example, we've been putting over \$100 million a year from the tobacco money into the Medicaid budget. If we put \$400 million aside from the up front money for Medicaid, what do we do in three years when we have exhausted that \$400 million? The \$280 million we get for the next 20 years will have been dedicated to paying off the securitization bonds, and won't be available to pay for Medicaid.

So we are building a bigger structural deficit into the budget by doing this.

I don't want to get 50 cents on the dollar, and I don't want to worsen our budget problems.

Advocates of securitization argue that the state's economy needs a stimulus, and that we need to invest in emerging technologies to create a future for Michigan and reduce our high unemployment. They have a point. They argue that the status quo is not acceptable and that we need to do something.

There is something to be said for this argument. Our unemployment level is too high, and the conditions in the auto industry do not suggest this will change soon. Government has a role in funding research that could lead to a better life for everyone.

But securitization is an expensive way to make that investment. If we really want to invest in emerging technologies as a state, shouldn't that investment have to compete with all the other programs the state funds, like education and health and public safety, and find its appropriate level of funding among our current resources? Isn't that better than pulling money forward at a 50 percent discounted rate and leaving ourselves with reduced resources for the next 20 years?

We spend over \$100 million a year of the tobacco money on MEAP scholarships. That was a nice thing to do in the late 90's when we had a lot of money. But we are broke now, and I don't think we can afford it. Would investing in new technologies be a better use of that money?

It's a good question, worthy of debate. And it is clearly a more fiscally responsible way to fund programs than to securitize tobacco dollars at a heavy discount. What do you think?

Mickey's TV Insider Show

Check out my TV Insider Show coming to a television station near you. Watch me interview local guests about politics, life, issues and concerns to our district.

Sterling Heights

Every Saturday and Sunday at 12:30 p.m.
(Comcast Channel 5/WOW Channel 10)

Utica

Every Wednesday at 9 a.m.
(Comcast Channel 5/WOW Channel 10)

Clinton Township

Last week of every month- Sat thru Thurs
(Comcast Channel 5/WOW Channel 10)

Roseville

Various Times
(Comcast Channel 18)

*Please note that Sterling Heights/Utica/Clinton Township will show the TV Insider Show on Comcast Channel 5 and Wide Open West Channel 10. Clinton Township will air the TV Insider Show at various times during the last week of every month. Roseville can see the TV Insider Show on Comcast Channel 18.

Coffee Hours

*Please note that since the District Office is in Roseville, I do not have set coffee hours in Roseville. However, I encourage you to visit the Roseville office. We even have a coffee pot. Everyone is welcome to attend the coffee hours and discuss their issues and concerns.

September 26
7-9 p.m.

Location: Clinton-Macomb Public Library
(40900 Romeo Plank, south of Canal Road)
Clinton Township

October 3
7-9 p.m.

Location: Sterling Heights Public Library
(40255 Dodge Park)
Sterling Heights

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